

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF OHIO VALLEY GAS)
CORPORATION FOR APPROVAL OF A)
GAS COST ADJUSTMENT PURSUANT TO)
INDIANA CODE 8-1-2-42 TO BE)
APPLICABLE TO CERTAIN GAS)
CONSUMPTION IN THE CALENDAR)
MONTHS OF JANUARY, FEBRUARY AND)
MARCH 2008 WITH THE CONSUMPTION)
PERIOD STARTING ON OR ABOUT)
DECEMBER 16, 2007 FOR ITS TEXAS GAS)
SERVICE AREA)

CAUSE NO. 37354 GCA 97

APPROVED: DEC 19 2007

BY THE COMMISSION:

Gregory D. Server, Commissioner

Lorraine Hitz-Bradley, Administrative Law Judge

On November 5, 2007, in accordance with Indiana Code § 8-1-2-42, Ohio Valley Gas Corporation ("Petitioner") filed its Petition for Gas Cost Adjustment with attached Schedules to be applicable during the billing cycles of January, 2008 through March, 2008 with the Indiana Utility Regulatory Commission ("Commission"). On that same date, Petitioner prefiled the verified testimony of S. Mark Kerney, Vice President and Chief Financial Officer, supporting the proposed GCA factor. On December 5, 2007, in conformance with the statute, the Indiana Office of the Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Pamela Sue Sargent Haase, CPA.

Pursuant to notice duly published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public hearing was held in this Cause at 2:00 p.m., on December 11, 2007, in the IURC Conference Center, Suite 220, Judicial Court Room 222, National City Center, 101 West Washington Street, Indianapolis, Indiana. The Petitioner and the OUCC were present and participated. The testimony and exhibits of both Petitioner and OUCC were admitted into the record. No members of the general public appeared or sought to testify at the hearing.

Based upon the applicable law and evidence presented herein, the Commission now finds:

1. **Statutory Notice and Commission Jurisdiction.** Due, legal and timely notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner operates a public gas utility and, as such, is subject to the jurisdiction of this Commission as provided in the Public Service Commission Act, as amended. The provisions of said Act authorize the Commission to act in this proceeding. The Commission therefore has jurisdiction over the parties and the subject matter herein.

2. **Petitioner's Characteristics.** Petitioner is a corporation duly organized and existing under the laws of the State of Indiana. Petitioner has its principal office at 111 Energy Park Drive, Winchester, Indiana. Petitioner is engaged in rendering natural gas utility service to the public in portions of Dearborn, Fayette, Franklin, Perry, Ripley, Spencer and Union counties in Indiana, and owns, operates, manages and controls plant and equipment used for the distribution and furnishing of such services.

3. **Source of Natural Gas.** Indiana Code § 8-1-2-42(g)(3)(A) requires Petitioner to make every reasonable effort to acquire long-term natural gas supplies in order to provide service to its customers at the most practical and economical level possible.

Petitioner's witness S. Mark Kerney testified that Petitioner has a long-term contract with Texas Gas Transmission, LLC ("TGT") for transportation, which expires on October 31, 2008, and contains renewal provisions. Mr. Kerney stated that the maximum daily contracted amount is 21,081 Dth for the three months January, February and March 2008 and that the arrangement includes pipeline capacity and storage. Petitioner also has firm transportation contracts with TGT for 2,500 Dth per day for each month and an additional incremental 1,500 Dth per day for each month from November through March.

Pursuant to these contracts, Petitioner will utilize TGT during the three-month period beginning January 1, 2008, for transportation services and will purchase its natural gas from natural gas broker(s) and/or producers in the spot market, under fixed price purchasing arrangements and pipeline storage arrangements.

The testimony of Petitioner witness S. Mark Kerney indicated that Texas Gas Transmission, LLC is the nearest and most economical pipeline passing through Petitioner's general service area. Transmission facilities are in place to transport the purchased gas to Petitioner's distribution facilities. Mr. Kerney further testified that utilizing another pipeline for transportation services would require a large investment in transmission facilities that would offset any potential savings through decreased gas costs and also would require various approvals from the Federal Energy Regulatory Commission ("FERC"). Witness Kerney also stated that Petitioner monitors its purchasing practices to keep purchased gas costs as low as economically feasible given weather and other variable load factor elements. Mr. Kerney testified that Petitioner bought the cheapest available gas for the month regardless of the original estimated cost for that particular month.

The Commission has indicated that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. Based on the evidence offered, we find that Petitioner has demonstrated that it has and continues to follow a policy of securing natural gas supply at the lowest gas cost reasonably possible in order to meet anticipated customer requirements. Therefore, the Commission finds that the requirement of this statutory provision has been fulfilled.

4. **Purchased Gas Cost Rates.** Indiana Code § 8-1-2-42(g)(3)(B) requires that Petitioner's pipeline suppliers have requested or filed pursuant to the jurisdiction and procedures of a duly constituted regulatory authority the costs proposed to be included in the GCA factor. The evidence of record indicates that gas costs in this Petition include transportation rates that have been filed by Ohio Valley Gas Corporation's pipeline suppliers in accordance with FERC procedures. The Commission has reviewed the cost of gas included in the proposed gas cost adjustment charge and finds the cost to be reasonable. Therefore, the Commission finds that the requirement of this statutory provision has been fulfilled.

5. **Return Earned.** Indiana Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a gas cost adjustment which results in the Petitioner earning a return in excess of the return authorized by the last Commission proceeding in which Petitioner's basic rates and charges were approved. The most recent applicable proceeding in which Petitioner's basic rates and charges were approved is Cause No. 42239. The Commission's January 2, 2003 order in that Cause authorized Petitioner to earn a net operating income of \$2,664,901. Petitioner's evidence herein indicates that for the twelve (12) months ending August 31, 2007, Petitioner's actual net operating income was \$769,492. Therefore, based on the evidence of record, the Commission finds that Petitioner is not earning in excess of that authorized in its last applicable rate case.

6. **Estimation of Purchased Gas Costs.** Indiana Code § 8-1-2-42(g)(3)(D) requires that Petitioner's estimate of its prospective average gas costs for each future recovery period be reasonable. The Commission has determined that this requires, in part, a comparison of prior estimations with the eventual actual costs. The evidence presented indicates that the estimating techniques of Petitioner during the reconciliation period of June, 2007 through August, 2007 ("Reconciliation Period") yielded an over-estimated weighted average error of 24.27%. Based upon Petitioner's historical accuracy in estimating the cost of gas, the Commission finds that Petitioner's estimating techniques are sound and Petitioner's prospective average estimate of gas cost is reasonable.

7. **Reconciliation.** Indiana Code § 8-1-2-42(g)(3)(D) also requires that the Petitioner reconcile its estimation for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this current proceeding established that the variance for the Reconciliation Period is an over-collection of \$47,389 from its customers. This amount should be included, based on estimated sales percentages, in this GCA and the next three GCAs. The amount of the Reconciliation Period variance to be included in this GCA as a decrease in the estimated net cost of gas is \$23,965.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of \$195,450. Combining this amount with the Reconciliation Period variance results in a total over-collection of \$219,415 to be applied in this GCA as a decrease in the estimated net cost of gas.

Petitioner received no refunds during the Reconciliation Period, and has no refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has no refunds to be returned in this Application. Based on the evidence presented, the Commission finds that Petitioner's proposed GCA properly reconciles the difference between the actual costs for the Reconciliation Period, and the gas costs recovered during that same period.

8. Resulting Gas Cost Adjustment Factors. The estimated net commodity cost of gas to be recovered during the application period is \$6,593,724. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA and Base Rates of \$6,374,309. After dividing that amount by estimated sales, subtracting the base cost of gas, and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factor is \$(1.558)/Dth.

9. Effects on Residential Customers The GCA factor of \$(1.558)/Dth represents a decrease of \$0.419 from the current GCA factor of \$(1.139)/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

Table No. 1
Proposed GCA Factor
Vs.
Currently Approved GCA Factor

Consumption Dth	Bill at Proposed GCA Factor	Bill at Currently Approved GCA Factor	Dollar Change	Percent Change
5	\$ 81.40	\$ 83.50	\$(2.10)	(2.51)%
10	\$ 148.30	\$ 152.49	\$(4.19)	(2.75)%
15	\$ 215.20	\$ 221.49	\$(6.29)	(2.84)%
20	\$ 282.10	\$ 290.48	\$(8.38)	(2.88)%
25	\$ 349.00	\$ 359.48	\$(10.48)	(2.92)%

The GCA factor of \$(1.558)/Dth represents a decrease of \$6.917 from the GCA factor \$5.359/Dth billed one year ago. The effects of this change for various consumption levels of residential bills are shown in the following table:

Table 2
Proposed GCA Factor
Vs.
GCA Factor One Year Ago

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Dollar Change	Percent Change
5	\$ 81.40	\$ 79.80	\$ 1.60	2.01%
10	\$ 148.30	\$ 146.59	\$ 1.71	1.17%
15	\$ 215.20	\$ 213.39	\$ 1.81	0.85%
20	\$ 282.10	\$ 280.18	\$ 1.92	0.69%
25	\$ 349.00	\$ 346.98	\$ 2.02	0.58%

Bills at Proposed and Currently Approved GCA Factors in Table No. 1 and No. 2 reflect Applicant's new Base Rate, Base Cost of Gas and Facility Charge effective October 15, 2007, as approved per Cause No. 43209.

10. **Interim Rates.** The Commission is unable to determine whether Petitioner will earn an excess return while this GCA is in effect. Accordingly, the Commission finds that the approved rates herein should be interim rates subject to refund pending reconciliation in the event an excess return is earned.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Petition of Ohio Valley Gas Corporation for the gas cost adjustment for natural gas service, as set forth in Finding Paragraph No. 8, shall be and hereby is approved, subject to refund in accordance with Finding Paragraph No. 10.

2. Ohio Valley Gas Corporation shall file with the Natural Gas Division of this Commission, prior to placing in effect the gas cost adjustment factors approved herein, separate amendments to its rate schedules with reasonable references thereon reflecting that such charges are applicable to the rate schedules on these amendments.

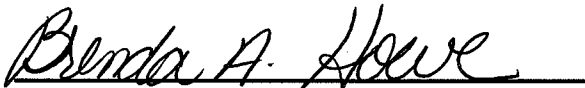
3. This Order shall be effective on and after the date of its approval.

HARDY, GOLC, SERVER AND ZIEGNER CONCUR; LANDIS ABSENT:

APPROVED:

DEC 19 2007

**I hereby certify that the above is a true
and correct copy of the Order as approved.**

A handwritten signature in cursive script, reading "Brenda A. Howe", is written over a horizontal line.

Brenda A. Howe

Secretary to the Commission